

Declassified in Part - STAKE 25V1
Sanitized Copy Approved for
Release 2011/10/31 :
CIA-RDP85T00875R00160003

Declassified in Part -
Sanitized Copy Approved for
Release 2011/10/31 :
CIA-RDP85T00875R00160003

CIP/OLR/111 10701 Doc/582

~~Confidential~~

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

South-West Africa: South Africa's Economic Stake

~~Confidential~~

ER IM 70-131
September 1970

Copy No. 46

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

CONFIDENTIAL

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
September 1970

INTELLIGENCE MEMORANDUM

South-West Africa: South Africa's Economic Stake

Introduction

South Africa and the United Nations, throughout the post-war period, have contested the political status of South-West Africa (Namibia). Ignoring UN resolutions terminating its mandate, South Africa has sought to increase the political and economic integration of South-West Africa with the Republic. South Africa desires to assimilate the Territory mainly for strategic-political reasons; nevertheless, South-West Africa's economic value to the Republic has increased steadily in recent years and is now quite substantial. This memorandum examines Pretoria's current economic stake in South-West Africa, identifies the South African interests and estimates their value, and assesses the economic implications of possible UN actions.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

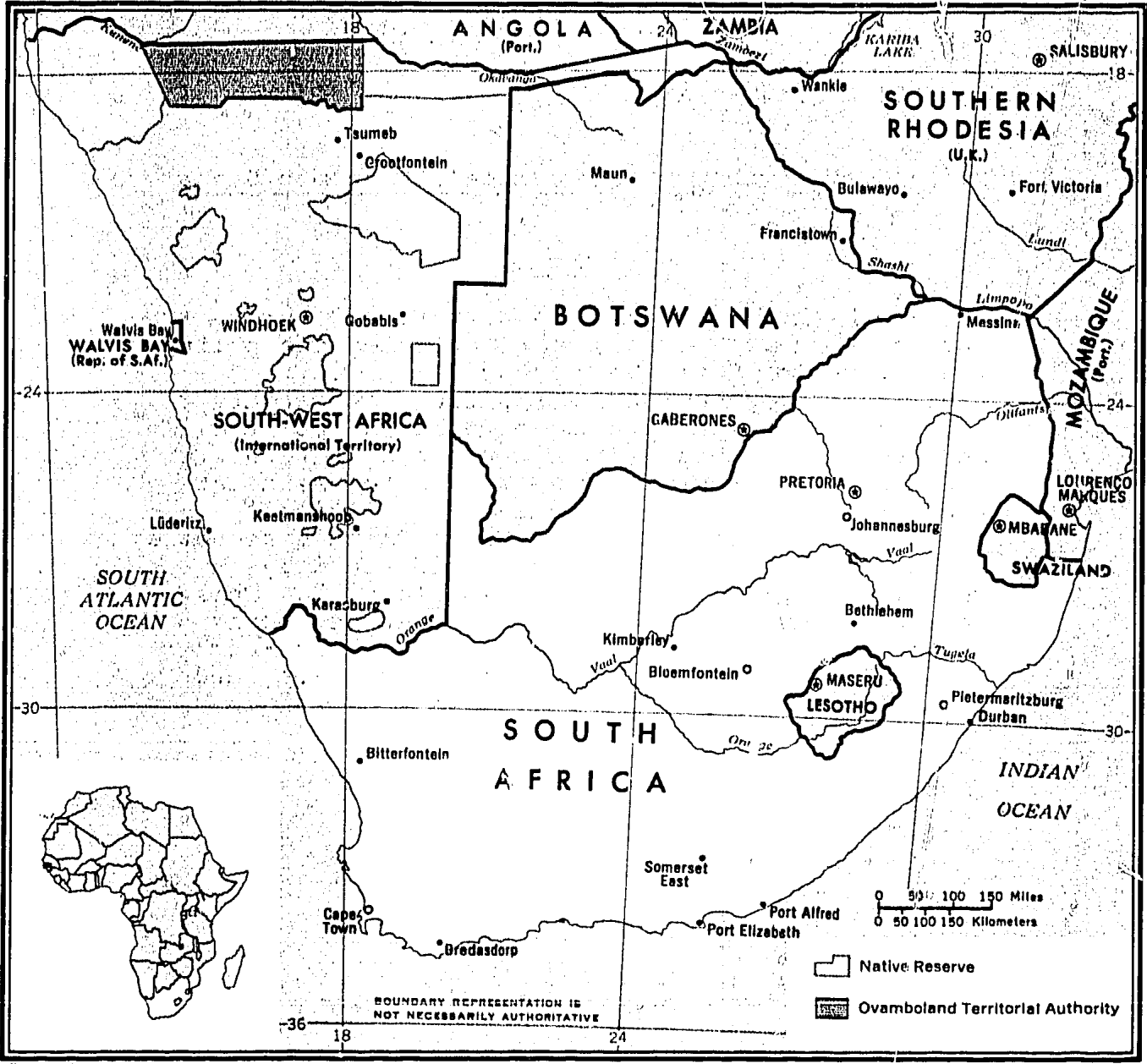
CONFIDENTIAL

25X1

CONFIDENTIAL

SOUTH-WEST AFRICA: NATIVE RESERVES

Figure 1



78933 9-70

CONFIDENTIAL

CONFIDENTIALBackground

1. The Territory of South-West Africa (Namibia),* located on South Africa's northwestern border, was mandated to South Africa by the League of Nations in 1920 (see Figure 1). Since its founding, the United Nations, as successor to the League of Nations, has sought unsuccessfully to assert control over the Territory. South Africa has resisted UN efforts, and in 1964 began implementing the Odendaal Plan, a master development scheme for the Territory. The principal features of the plan include the establishment of territorial homelands, or Bantustans, for the native population, the forced economic and geographic separation of the various racial groups,** and the transfer of most governmental functions to Pretoria. South Africa's mandate was terminated officially by the UN General Assembly resolution of October 1966, and the World Court recently has been called on by the Security Council for an advisory opinion on the issues involved in South Africa's refusal to withdraw from the Territory.

2. South-West Africa seems an unlikely arena for high international stakes. There are only about one-half million non-whites, scattered over a largely arid expanse of some 317,000 square miles, most of whom live in the tribal reserves and newly established homeland in the north where they eke out an existence through subsistence farming. There are, in addition, about 90,000 whites, of whom about 70% are Afrikaners and slightly more than 20% are of German descent. The whites enjoy a standard of living equivalent to that of the whites of South Africa -- one of the highest in the world.

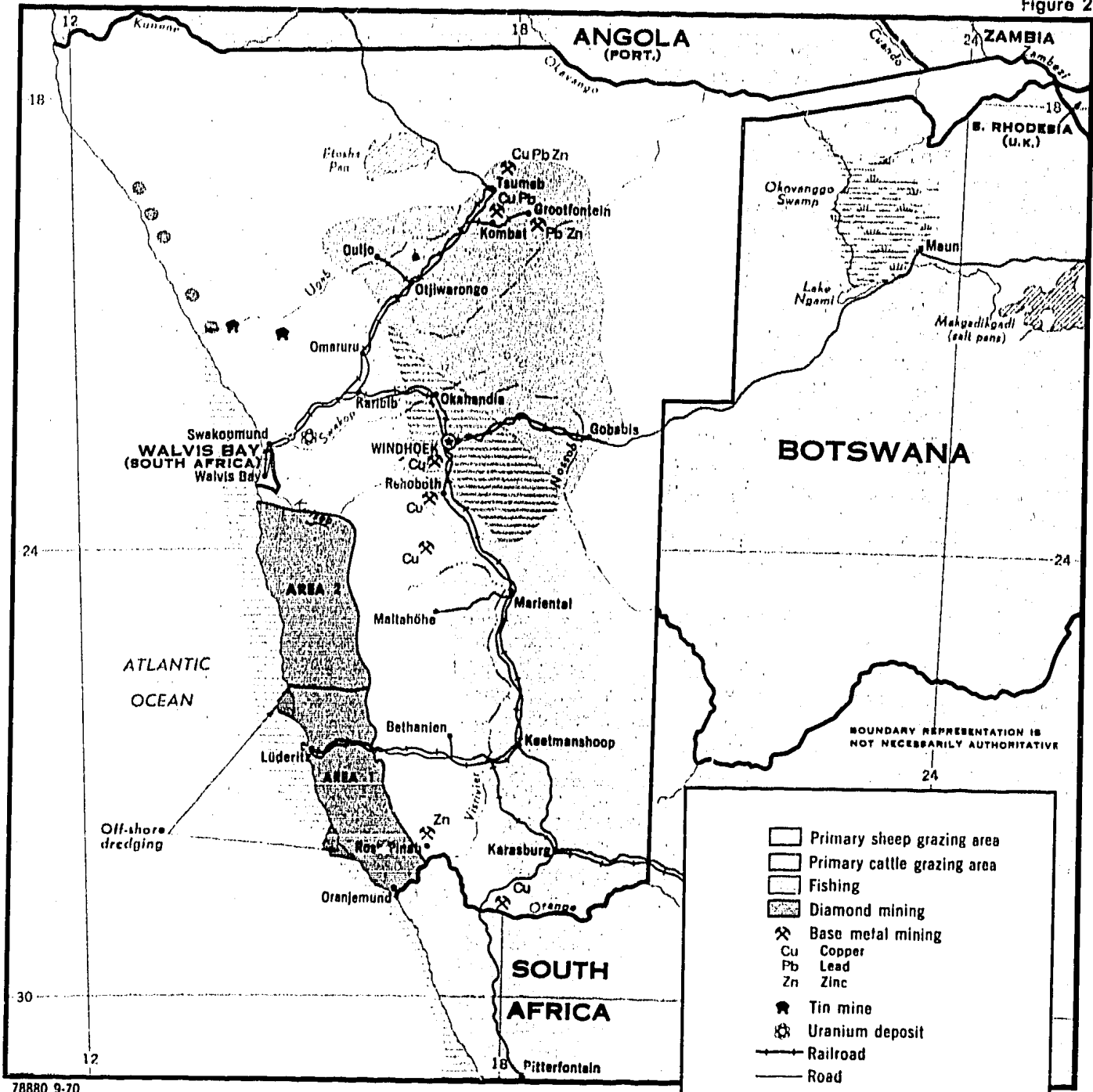
* The Territory, which excludes the 434-square-mile enclave of Walvis Bay (considered part of the Republic of South Africa), has been named Namibia by the United Nations in its capacity as legal authority for the Territory.

25X1

CONFIDENTIAL

CONFIDENTIAL

Figure 2



SOUTH-WEST AFRICA
(INTERNATIONAL TERRITORY)
ECONOMIC ACTIVITY

CONFIDENTIAL

CONFIDENTIAL

3. Mining, fishing, and agriculture are the three mainstays of the South-West African economy. The Territory has an abundance of mineral wealth, including diamonds, lead, copper, zinc, tin, and uranium (see Figure 2). The shorelines are rich in fish, while agriculture produces substantial quantities of karakul wool and beef cattle. The lack of rainfall, however, inhibits intensive agriculture in most of South-West Africa, and manufacturing, because of the small size of the domestic market, is very rudimentary.

4. The total gross domestic product (GDP) of the Territory, primarily as a consequence of a more than doubling of mineral output in the early years of the decade, rose from less than \$170 million in 1960 to about \$360 million in 1969. The economy's growth rate apparently slackened somewhat in 1968 and 1969 -- mineral production leveled off, the fish catch declined, and a severe drought reduced agricultural output. Nevertheless, expenditures on new mining developments should bring the real growth rate back to about 6% annually in the early 1970s.

5. The South-West African economy is very dependent on its foreign trade sector. Nearly 80% of the Territory's GDP is generated in export-oriented industries, and almost as much of the Territory's earnings are spent on imports. Since only a small number of people earn more than subsistence incomes and the level of domestic savings is low, nearly all investment in the Territory has been financed by extra-Territorial sources. As a consequence of this heavy dependence on the foreign sector, almost 30% of the income earned in the Territory, consisting mainly of the profits of foreign-owned businesses but including also the wages paid the South African employees in the government and private enterprises, accrues to foreign, particularly South African, interests.

South-West Africa's Foreign Trade

6. South-West Africa's foreign trade is typical of most less developed countries. Primary products, particularly minerals, make up the bulk of exports -- diamonds alone account for more than 40% of the total value -- while manufactured goods and processed foodstuffs constitute the bulk of the imports.

CONFIDENTIAL

CONFIDENTIAL

7. Territorial imports -- about 90% are believed to come from South Africa -- are estimated to have been about \$250 million in 1969 (see Table 1). Although imports grew rapidly in the early part of the decade, the slowdown in South-West African growth has had a dampening influence in the last two years. Imports from nations other than South Africa are small, probably totaling about \$25 million annually.

8. South-West African exports in 1969 were about \$280 million. The Territory, which ranks second only to South Africa among the world's producers of gem diamonds (gems represent about 85% of South-West Africa's total diamond production), earned nearly \$140 million from diamond sales in 1969 (see Table 2). These sales were made initially to South Africa and then by South Africa to the rest of the world. South-West African exports to the United Kingdom and to the European Community, consisting primarily of karakul wool, fish products, and base metals, totaled about \$80 million. Annual exports to the United States are about \$20 million and include almost the entire rock lobster catch.

9. South-West Africa's overall balance of trade shows a moderate surplus. Although the Territory has a substantial deficit in its trade with South Africa, it has a more than offsetting surplus in its trade with other nations. During 1963-69, South-West Africa, as a consequence of this surplus, earned more than \$1.2 billion in foreign exchange for the South African Customs Union (composed of South Africa, South-West Africa, Botswana, Lesotho, and Swaziland).

Capital Investment in South-West Africa

10. Public investment, which accounts for 65% of the capital stock of the Territory, has played a major role in the growth of the South-West African economy. South-West Africa has invested about \$380 million* in roads, telecommunications, water development, and other infrastructure projects

** Investment estimates have been made on the basis of data derived from accounting statements. These statements probably underestimate the true value of investments at current prices.*

CONFIDENTIAL

Table 1

South-West Africa's Balance of Trade a/

| | Million US \$ | | | | | |
|--------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> |
| Exports | 220 | 255 | 290 | 260 | 285 | 280 |
| To South Africa | 40 | 40 | 40 | 40 | 45 | 45 |
| To rest of World | 180 | 215 | 250 | 220 | 240 | 230 |
| Imports | -205 | -235 | -215 | -235 | -230 | -250 |
| From South Africa | -185 | -210 | -195 | -210 | -210 | -225 |
| From rest of World | -20 | -25 | -20 | -25 | -25 | -25 |
| Balance of trade | 15 | 20 | 75 | 25 | 55 | 30 |
| With South Africa | -145 | -170 | -155 | -170 | -160 | -175 |
| With rest of World | 160 | 190 | 230 | 195 | 215 | 205 |

a. Official trade statistics do not differentiate between the Republic and South-West Africa.

Data have been rounded to the nearest \$5 million and, because of rounding, components may not add to the totals shown.

CONFIDENTIAL

CONFIDENTIAL

25X1
25X1

25X1

CONFIDENTIAL

Table 2

South-West Africa's Exports a/
by Commodity and Country of Destination

| | Million US \$ | | | | | |
|--------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> |
| Base metals b/ | <u>46</u> | <u>53</u> | <u>60</u> | <u>41</u> | <u>43</u> | <u>38</u> |
| South Africa | 3 | 4 | 8 | 6 | 6 | 6 |
| United Kingdom/ | | | | | | |
| European Community | 31 | 33 | 32 | 24 | 25 | 23 |
| United States | 12 | 16 | 21 | 12 | 11 | 9 |
| Diamonds | <u>84</u> | <u>98</u> | <u>119</u> | <u>113</u> | <u>137</u> | <u>137</u> |
| Fish oil/meal | <u>27</u> | <u>34</u> | <u>38</u> | <u>31</u> | <u>26</u> | <u>26</u> |
| South Africa | 6 | 7 | 8 | 6 | 5 | 5 |
| United Kingdom/ | | | | | | |
| European Community | 20 | 27 | 30 | 25 | 21 | 20 |
| United States | 2 | - | 1 | - | - | 1 |
| Pilchards | <u>14</u> | <u>19</u> | <u>20</u> | <u>25</u> | <u>13</u> | <u>14</u> |
| South Africa | 3 | 4 | 4 | 5 | 3 | 3 |
| United Kingdom/ | | | | | | |
| European Community | 10 | 15 | 11 | 16 | 8 | 10 |
| United States | 1 | - | 4 | 4 | 2 | 1 |
| Rock lobster | <u>5</u> | <u>8</u> | <u>9</u> | <u>6</u> | <u>10</u> | <u>9</u> |
| South Africa | - | - | - | - | - | - |
| United Kingdom/ | | | | | | |
| European Community | - | - | - | - | - | - |
| United States | 5 | 8 | 9 | 6 | 10 | 9 |
| Other fish | <u>1</u> | <u>2</u> | <u>2</u> | <u>4</u> | <u>3</u> | <u>3</u> |
| South Africa | - | - | - | - | - | - |
| United Kingdom/ | | | | | | |
| European Community | 1 | 2 | 2 | 4 | 3 | 3 |
| United States | - | - | - | - | - | - |

CONFIDENTIAL

CONFIDENTIAL

Table 2
(Continued)South-West Africa's Exports a/
by Commodity and Country of Destination

| | Million US \$ | | | | | |
|---------------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> |
| Karakul wool | <u>16</u> | <u>14</u> | <u>21</u> | <u>17</u> | <u>21</u> | <u>19</u> |
| South Africa | - | - | - | - | - | - |
| United Kingdom/ European Community | 14 | 12 | 19 | 15 | 20 | 18 |
| United States | 2 | 2 | 2 | 2 | 2 | 1 |
| Livestock | <u>26</u> | <u>27</u> | <u>22</u> | <u>25</u> | <u>33</u> | <u>32</u> |
| South Africa | 26 | 26 | 22 | 25 | 32 | 32 |
| United Kingdom/ European Community | - | 1 | - | - | 1 | - |
| United States | - | - | - | - | - | - |

a. Official trade statistics do not differentiate between the Republic and South-West Africa.

25X1
25X1

The following qualifications should be noted: Agricultural and fishery products, fairly accurate; mineral products, fairly accurate through 1966, rough approximations thereafter; all diamonds are marketed through the South African Diamond Producers Association so that it is somewhat arbitrary to allocate exports to the Republic or to any country. Because of rounding, components may not add to the totals shown.

b. Primarily copper, lead, and zinc.

and the South African Railways and Harbours Administration -- a South African quasi-public corporation -- has an estimated \$275 million investment in the railroads and harbors of the Territory.* These investments have provided the Territory with a relatively efficient transport and communications system without which many of the mines, located in remote parts of the country, would have been unable to operate. About \$35 million has also been invested

* Excluding an investment of approximately \$50 million in the infrastructure at Walvis Bay.

CONFIDENTIAL

CONFIDENTIAL

by the South African government in the Kunene River hydroelectric and irrigation project. This project will provide an important boost to lagging agricultural output.

11. Of the more than \$340 million in private foreign investment in South-West Africa, about 70%, or at least \$240 million, is South African. The South African investment is concentrated largely in one firm, the Consolidated Diamond Mines of South-West Africa, Ltd. This firm, a subsidiary of the DeBeers group of South Africa, is engaged in diamond mining along the southern coastal areas and probably has more than \$200 million invested. Other important South African investments in South-West Africa include approximately \$30 million in the fishing and fish-processing industries and a \$10 million investment by the South African Iron and Steel Corporation in the Rosh Pinah zinc mine. Several South African manufacturing and trading firms also maintain sales and service agencies of an undetermined value in various South-West African towns, and several mining companies are engaged in exploratory operations.

12. Private investment in South-West Africa by nations other than South Africa is relatively small. The total overseas private investment amounts to approximately \$100 million -- about \$65 million of which is American, \$25 million British, and \$10 million Canadian. The largest investment, approximately \$70 million as of 1969, is in the 68% American-owned and 32% British-owned Tsumeb Corporation, the Territory's principal producer of lead and copper. Others include an \$8.4 million American mining investment, a \$7.0 million Canadian mining investment, and a \$6.0 million investment by various American oil companies in storage and distribution facilities. In addition, several overseas firms have prospecting concessions that may soon be developed. The British-owned Rio Tinto Zinc Corporation is planning, for example, to invest about \$100 million in uranium exploitation and recovery facilities.

13. The return earned by foreign private capital on investments in South-West Africa is quite substantial. The rate of return often exceeds 30% after Territorial income taxes -- Consolidated alone averaged after-tax profits of \$62 million

CONFIDENTIAL

CONFIDENTIAL

annually during 1964-68.* Total earnings of foreign private capital in 1969 before taxes were approximately \$150 million, \$125 million of which was earned by South African firms. After Territorial taxes of about \$50 million, approximately \$100 million in earnings was available for remittance to home countries, there being no controls on repatriation of earnings.

South Africa's Economic Stake

14. South Africa derives a substantial economic benefit from its stake in South-West Africa. As a consequence of South-West Africa's very favorable overseas trade balance, South Africa, through the South African Customs Union, earns about \$200 million annually in foreign exchange. Some foreign exchange is used to cover South-West Africa's payments abroad for invisibles, primarily profits on overseas capital and payments for insurance, shipping, and transfers, but this loss is offset in part by the inflow of new private overseas capital (see Table 3). South-West African imports from South Africa, aside from effecting a transfer of foreign exchange from the Territory to the Republic, also provide South African industry with a larger market. South African firms benefit from the high returns on their investment in the Territory and from guaranteed access to important raw materials. If the oil exploration now being undertaken in the Territory should result in an exploitable strike, South-West Africa's importance as a source of raw materials for the Republic will increase dramatically.

15. The economic benefits that South Africa derives from its ties with the Territory are not without cost. Investment in South-West Africa by South African concerns is estimated to be on the order of \$30 million to \$40 million annually. In addition, the South African Railways and Harbours Administration subsidizes South-West African freight transport by operating its South-West Africa Division at an annual loss of about \$2 million.

* In contrast, the rate of return on mining investments in the Republic of South Africa is only around 10%.

Table 3

South-West Africa's Balance of Payments a/

| | Million US \$ | | | | | |
|--|---------------|------|------|------|------|------|
| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 |
| Balance of trade | 15 | 20 | 75 | 25 | 55 | 30 |
| With South Africa | -145 | -170 | -155 | -170 | -160 | -175 |
| With rest of World | 160 | 190 | 230 | 195 | 215 | 205 |
| Profit remittances | -75 | -95 | -110 | -110 | -95 | -100 |
| To South Africa | -55 | -65 | -80 | -90 | -75 | -80 |
| To rest of World | -20 | -30 | -35 | -25 | -20 | -20 |
| Balance on current account (excluding services and transfers) | -55 | -75 | -35 | -85 | -45 | -70 |
| With South Africa | -200 | -235 | -235 | -255 | -240 | -260 |
| With rest of World | 145 | 160 | 195 | 170 | 195 | 185 |
| Net long-term capital inflows | 45 | 40 | 40 | 40 | 40 | 40 |
| From South Africa | 35 | 35 | 35 | 35 | 35 | 35 |
| From rest of World | 10 | 5 | 5 | 5 | 5 | 5 |

a. Official balance-of-payments statistics do not differentiate between South-West Africa and other countries in the South African Customs Union.

Data have been rounded to the nearest \$5 million and, because of rounding, components may not add to the totals shown.

CONFIDENTIAL

- 12 -

CONFIDENTIAL

25X1

25X1

CONFIDENTIAL

Economic Implications of Possible Political Actions

16. South-West Africa's future economic development may be affected by actions undertaken in support of the United Nations' effort to assert control over the Territory. The UN Security Council has requested that member states discourage their nationals from investing in or trading with South-West Africa. This request so far has received only limited practical support. The United States alone among the major trading nations has sought to discourage investment in the Territory, and no major trading nation has sought to restrict its trade with South-West Africa.

17. Even in the unlikely circumstance that it could be enforced, an international embargo on new overseas investment in South-West Africa would have a very limited effect on the economy. Investment in the economy from sources other than South Africa or South-West Africa constitutes only about 10% of total investment and is, for the most part, financed through retained earnings. Even in the one instance where the embargo might be significant -- the planned \$100 million investment by the British-owned Rio Tinto Zinc Corporation -- the project could easily be carried out by South African interests if Rio Tinto should be prevented from doing so.

18. Although the potential impact of an international trade embargo is much greater, since almost half of the Territory's income is generated in the production of exports for countries other than South Africa, effective implementation would be impossible without accompanying restrictions on South African trade. With the exception of karakul wool and pilchards, little of which is produced in South Africa itself, South-West African exports could be exported easily with false certificates of origin.

CONFIDENTIALConclusions

19. South Africa derives a substantial economic benefit from its ties with the Territory. As a consequence of South-West Africa's trade deficit with the Republic and an offsetting surplus with the rest of the world, South Africa earns almost \$200 million annually in foreign exchange. Other benefits derived by South Africa are a high return on private investment in the Territory, particularly in mining, a guaranteed access to certain important raw materials, and an enlarged market for the products of South African industry. Although South Africa has invested in South-West Africa's development, much of this investment was spent on goods and services of South African origin and very little on imports from foreign countries.

20. The economic ties with the Territory are the result of South Africa's efforts to create an effective buffer between itself and Black Africa by controlling the Territory economically and politically. Because of South-West Africa's strategic importance and South Africa's economic stake in the Territory, Pretoria has shown considerable intransigence in its dispute with the United Nations.

21. The United Nations has suggested that trade and investment sanctions be brought to bear against South-West Africa. An investment prohibition, which has in part already been introduced by the United States, almost certainly will have little effect either on the South-West African economy or on South African interests there because overseas investment plays a relatively insignificant role in the Territory. A trade embargo could have a far greater potential effect, but could not be enforced. South African economic interests in South-West Africa can be expected, therefore, not only to continue but also to expand.